

# Fermilab Flexible Spending Accounts Brochure

*If you have dependent care expenses or medical bills your insurance doesn't cover, you'll want to take advantage of an innovative and valuable feature of your benefits program—reimbursement accounts. Reimbursement accounts offer money-saving tax advantages for these expenses.*

## **What is a Reimbursement Account?**

Think of it as your own personal bank account in which you can set aside a predetermined dollar amount to cover allowable non-reimbursed health and dependent care expenses. You contribute to the accounts through payroll deduction on a pre-tax basis...that is, before federal, state and social security taxes are applied. You reimburse yourself from your account for specific bills not covered by other benefit plans.

## **Two Reimbursement Account Options**

Through the benefits program, Fermilab offers you the opportunity to participate in two types of reimbursement accounts:

Health Care Account

Dependent Care Account

You can enroll in either one or both of these accounts, depending on your own personal needs.

## **How the Accounts Work**

Each year during the open enrollment period, you indicate on the Enrollment Application how much you want to contribute to each account. The maximum you can contribute is \$5,000 to the dependent care account and \$4,000 to the health care account. You will have money deducted from each paycheck and set aside in an account

designated to reimburse you.

Then, you pay your dependent care provider (babysitter or daycare facility, for example) as you normally would and submit that expense for reimbursement from your account. For health-related expenses, you submit a claim form to the insurance company and obtain an Explanation of Benefits (EOB), indicating that services were not paid by the plan, and submit that EOB to the plan's claims processor, CIGNA, for reimbursement from your account. The sooner you submit your expenses, the sooner your claim will be processed. Let's look at each account to determine if it can help you with your out-of-pocket expenses.

## **HEALTH CARE REIMBURSEMENT ACCOUNT**

The health care account is designed to help you pay for expenses not reimbursed by your medical or dental insurance plans. Generally, any health related cost that the IRS considers eligible for a tax deduction may be reimbursed through your health care account. A partial list is included in this enrollment package. Here are some common examples of eligible

expenses

- Deductible and coinsurance amounts
- Health care not covered by insurance plans, such as hearing aids and eyeglasses.

### How Much Can You Contribute?

You can contribute up to \$4,000 a year to your account. In deciding how much to contribute, consider the health related expenses you routinely incur which are not covered by medical or dental insurance. Use last year's expenses as an example and complete the following chart:

Medical and dental deductible  
\$ \_\_\_\_\_

Medical and dental  
Co-payments  
\$ \_\_\_\_\_

Eligible expenses not covered by insurance (e.g. hearing aids and eyeglasses)  
\$ \_\_\_\_\_

Total eligible expenses not reimbursed by insurance  
\$ \_\_\_\_\_

You may want to contribute the total of these expenses, or a generous portion, to your health care reimbursement account if you expect similar expenses this year.

### What is the Advantage of Using Before-Tax Dollars?

Let's assume you are the sole wage earner in your family and will earn \$35,000 next year. You expect to spend \$1,900 for your child's orthodontic work. The following illustrates how a Health Care Reimbursement Account actually increases your spendable income.

	With A Health Care Account	Without a Health Care Account
<b>Base Salary</b>	\$35,000	\$35,000
Health Care Account	1,900	0
<b>Gross Income</b>	<b>33,100</b>	<b>35,000</b>
Less Federal Income Tax	1,595	1,880
Less Social Security Tax	2,532	2,678
Less Illinois Income Tax	813	870
<b>After-Tax Income</b>	<b>28,160</b>	<b>29,572</b>
Less health care expenses Yet to be paid		2,000
<b>Spendable Income</b>	<b>\$28,160</b>	<b>27,572</b>

*This example assumes a married filer with 3 dependents.*

### DEPENDENT CARE REIMBURSEMENT ACCOUNT

Care for your dependents may enable you and your spouse (if applicable) to work or attend school full-time. You may establish a dependent care reimbursement account to help you pay for these dependent care costs. Expenses eligible for reimbursement include costs for the care of:

a dependent child under age 13 who qualifies as your tax dependent;  
anyone you claim as a tax dependent because of physical or mental inability to care for himself or herself. Examples are an elderly parent or a disabled spouse. Expenses may be reimbursed for services provided:  
Inside your home, as long as the

care is not provided by someone you or your spouse claim as a dependent or by a relative under age 19;  
Outside your home, as long as your dependent spends at least eight hours a day in your home; In a dependent care center or a child care center. If the center cares for more than 6 children, it must comply with applicable state and local regulations. By a housekeeper whose services include, in part, providing care for a qualifying individual.

The person or organization who cares for your dependents) must declare the money received from you on their federal income tax in order for you to use the reimbursement account. You'll need to provide the tax identification number (TIN) of the caregiver when you submit your claims.

### **How Much Can You Contribute?**

Under present law, the maximum annual contribution allowable is \$5,000 if you are single or married and file a joint income tax return. If you are married and file separately, your maximum allowable annual contribution is \$2,500.

Additionally, the maximum amount a married couple can set aside cannot exceed the lower of your earned income or your spouse's earned income (for instance, if your spouse earns \$3,500 during the year, that is the most you can contribute to your reimbursement account.) If your spouse is a full-time student at least five months a year, the IRS will consider him or her to be gainfully employed. For earned income purposes, the IRS will assume that he or she has earned at least \$200 per month if you have one dependent receiving care, or \$400 per month if you have two or more dependents receiving care.

### **What is the Advantage of Using Before-Tax Dollars?**

A dependent care reimbursement account works in much the same manner as the health care reimbursement account. However, you should be aware that federal law provides a tax credit for those who incur dependent care expenses.

### **Dependent Care Account or Tax Credit?**

The dependent care reimbursement account may not be appropriate for everyone. You may find out it is more advantageous for you to take a dependent care tax credit on your federal income tax return than participate in a dependent care account. The decision depends on your overall child care expenses and your household income.

Federal law provides a tax credit – called the “Credit for Child and Dependent Care Expenses” – for those who incur dependent care expenses in order to be gainfully employed. The tax credit directly reduces the amount of income tax you owe. The amount of tax credits is equal to the percentage of dependent care expenses you incur and pay during the year, up to a limit of \$2,400 if you have one qualifying individual or \$4,800 if you have two or more qualifying individuals. The amount eligible for a federal tax credit for dependent care expenses will be directly offset by the amount the employee contributes to a dependent care reimbursement account. The percentage that applies to you depends on your adjusted gross income (or the combined adjusted gross income of you and your spouse). As a general rule, if your income tax bracket is greater than the percent allowed from the tax credit, the dependent care reimbursement account will allow you to make the most of your earned income.

So, for example, if you are in the 25% tax bracket and your allowable dependent care tax credit is 22%, the dependent care reimbursement account may benefit you.

### **Use It or Lose It Feature**

It is critical that you estimate your expenses carefully before directing money into your reimbursement account. The IRS requires that all unused account balance will be forfeited and used to offset the Plan's administrative expenses. You can claim expenses incurred from January 1 of the plan year until March 15th of the following year.

All reimbursement requests must be submitted by March 31 of the year following the plan year. For 2007, you will have until 3/15/2008 to incur expenses and until 3/31/08 to file for reimbursement of those expenses. Any unused funds at that time will be forfeited.

### **How to Enroll in the Accounts**

To enroll in one or both accounts, complete the enrollment application included with this brochure and return it to the Benefits Office.

Make sure that you have listed the amount of income you would like withheld from your annual earnings for each account.

The amount you designate will remain in effect for the entire plan year unless you have a change in family status such as:

- Addition or loss of dependents
- Addition or loss of spouse's employment
- Change in work status
- Change in marital status
- Commencement or return from an unpaid leave of absence
- Significant change in the health coverage of an employee or spouse
- Change of residence or work site of the employee or spouse
- Change in employment status
- Change in unmarried dependent's status

If you have a change in status and wish to change your elections, you must notify the Benefits Office within 31 days of the event.

### **Withdrawals From Your Account**

To withdraw money from your account, you must complete a reimbursement request form (available on the Benefits website or from the Benefits Office) and send it to CIGNA with the appropriate receipts and documentation of expenses. Reimbursement checks will be sent directly to you, not your provider of services. Here are some other IRS guidelines you need to know about making withdrawals:  
Expenses must be incurred by

March 15th of the year following the plan year your contributions are made. You will have until March 15, 2008 to incur eligible expenses to be reimbursed from your 2007 reimbursement account.

- You may request reimbursement for up to ninety days after the close of the plan year for expenses incurred during the plan year. (After that time, your balance will be forfeited.)
- If you terminate employment during the year, you may request reimbursement for expenses incurred prior to your termination date. You will have until the end of the next fiscal quarter after you terminate employment to collect this money.
- If you do not have enough money in your account to reimburse yourself for your entire dependent care expense, your entire account balance will be paid to you, and as more money is credited to your account, checks will automatically be issued to you until that claim has been paid (you do not need to keep resubmitting the same claim). If your expenses are health-related, you will be reimbursed up to your annual contribution amount, less any prior payments.
- Checks are issued weekly and are paid in amounts of \$50 or more. If your request is for less than \$50, CIGNA will accumulate the balance until you submit at least \$50 in claims, then send your check. The last payment of the year will be for the actual amount of your request, providing you have money left in your account.

### **Social Security Implications**

Before-tax contributions may affect

your Social Security benefits when you retire. When you deposit money into the reimbursement account or pay your insurance premiums on a before-tax basis, Social Security taxes are not withheld from your paycheck. As a result, if your taxable income is less than the maximum wages taxed by Social Security (\$97,500 in 2007), you could reduce your future Social Security benefit.

### **Questions?**

If you have further questions after reading this brochure, please contact the Benefits Office for assistance.

### **Visit Our Website**

For more information, the summary plan description can be found on our web pages at <http://lss.fnal.gov/policies/spd.html>